North Carolina's Enterprise

Fraud, Waste and Improper Payment Detection Program

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North Carolina
Office of the State Controller

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I. Executive Summary

Measuring fraud, waste and abuse is a difficult task, and there is no single national agency that collects and reports comprehensive fraud statistics. After discussions with experts from relevant organizations and completing a review of the literature (including topical industry white papers), estimates of fraud, waste and improper payments were found to range from 5% to 15%, depending on the government sector of interest.   Fraud, waste and abuse occurs across all government lines of business from health and human services, tax revenue collection and disbursement, unemployment insurance, workers' compensation, retirement benefits, insurance fraud and much more.

Since 2008, the Office of the State Controller has managed North Carolina's Statewide Data Integration Program. Data integration provides the ability to merge and reconcile varied and disparate data into common, consistent formats, for analytical and reporting purposes. Standardized data, as well as common tools and technology, support quick, agile, fact-based decision making to support the State's critical business functions.

The first enterprise data integration initiative, the Criminal Justice Law Enforcement Automated Data Services (CJLEADS) program, integrated statewide offender information into a single, secure, web-based application to support criminal justice professionals and to improve the safety of North Carolina's citizens. The successful design, development, implementation and deployment of the CJLEADS program demonstrated the value of data integration initiatives.

North Carolina State government's role is to serve its citizens and manage taxpayer dollars with integrity, financial responsibility and transparency. The ability to identify, resolve and prevent incidents of fraud, waste and improper payments is critical to the State's fiscal management of public funds. Session Law 2011, HB 200-145, directed OSC to develop an enterprise process to detect fraud, waste, and improper payments across State agencies. The OSC has contracted with SAS to design, develop and host the North Carolina Financial Accountability and Compliance Technology System (NC FACTS) leveraging the SAS Fraud Framework technology. The NC FACTS program will evolve under the guidance of the legislatively created Data Integration Steering Committee in partnership with state agencies having an interest in leveraging integrated data to detect incidents of fraudulent, wasteful or erroneous overpayments in their business areas.

The NC FACTS program team continues to focus efforts on identifying agencies interested in participating in the enterprise fraud, waste, and improper payments detection initiative, developing data sharing best practices, and addressing inhibitors to data sharing. Data sharing concerns continue to present a challenge both to the NC FACTS initiative as well as to the Data Integration effort as a whole. Balancing the state agencies' duties to secure and protect the privacy of the data entrusted to them by North Carolina's citizens with the obligation to ensure that tax payers' dollars are appropriately used to provide the best value and services for the citizens of North Carolina presents significant challenges to overcome.

The ability to have broad access to data for statistical analysis, anomaly and outlier detection and investigation is a critical to the detection, investigation and recoupment of fraudulent, wasteful, or improper payments. Key identifying data fields are required to develop relationships and linkages among the disparate sources.   As data is integrated advanced analytics can identify suspect activity and highlight possible collusion and/or rings of criminal activity. Because key data is necessary to perform the breadth of analysis required, NC FACTS will implement the appropriate technical architecture, security, and access parameters to ensure the data is protected and controlled in the NC FACTS environment.

Legislation providing OSC greater access to key data sources is necessary to allow the OSC to fully implement NC FACTS to meet the General Assembly's mission of fraud, waste and improper payment detection.

This report highlights the activities of the program since the January 1, 2012 report.

II. Background

Business data is a valuable resource for organizations in government and the private sector. Data enables organizations to analyze historical behavior, predict future trends and make decisions based on business facts rather than intuition and supposition. Over the years, however, data has been gathered and stored in siloed data systems that were built to meet the business needs of individual organizations. When data is stored in varying formats and technical platforms, the process of gathering information from different lines of business can be complicated, time consuming, and difficult.

In Session Law 2007-323, HB 1473, the North Carolina General Assembly recognized this challenge and directed the Office of the State Controller (OSC) to develop a strategic plan for the integration of databases and sharing of information among State agencies and programs. Since 2008, OSC has managed the Statewide Data Integration Program, including the design, development and statewide implementation of Criminal Justice Law Enforcement Automated Data Services (CJLEADS) criminal justice data integration program.

Session Law 2011, HB 200-145 (Appendix_A) directed OSC to expand the data integration program by developing an enterprise process to detect fraud, waste, and improper payments across State agencies. This effort seeks collaboration and partnership with State agencies having an interest in leveraging integrated data to detect incidents of fraudulent, wasteful or improper overpayments in their business areas. To help guides this effort the General Assembly creates the Data Integration Steering Committee. It is chaired by the State Controller and is comprised of:

1. One member with an information technology background appointed by the Governor.
2. One member with a background in law enforcement appointed by the Governor.
3. One member with a background in government accounting appointed by the President Pro Tempore of the Senate.
4. One member with government operations experience appointed by the President Pro Tempore of the Senate.
5. One member with a background in information technology appointed by the Speaker of the House of Representatives.
6. One member with a background in business management appointed by the Speaker of the House of Representatives.

III. Program Requirements

To develop an enterprise program that will detect fraud, waste, and improper payments across state government, OSC will work with state programs and agencies to identify the data and business rules necessary to support related analytics and reporting. Data collected and stored to support one agency's business needs will likely also support other agencies' data information needs as they relate to this enterprise activity. Data governance addressing security protocols, role-based security access and memorandums of understanding and agreement will be critical to sharing North Carolina's information at the enterprise level.

For detailed program requirements as outlined in Session Law 2011, HB 200-145, please see Appendix_B.

To manage the program, OSC was directed to enter into a two-year enterprise automated fraud detection contract at a maximum cost of $8 million for a two-year contract period with the State's data integration vendor.   The contract was based on a public-private partnership with the State's data integration vendor contributing resources in the amount of $5 million in each of the two contract years (FY11-12 and FY12-13). This partnership -- with the active participation and commitment of executive management from the State and the data integration vendor ensures that North Carolina's tax-paying citizens are the direct beneficiaries of the contract -- will concentrate efforts on activities that provide the best return for the State's investment. Both parties will coordinate efforts to report benefits realized for each area of fraud, waste or improper payment analysis.

While the program will expend considerable effort on data collection and integration -- along with consequential data analytics and reporting -- support to business programs responsible for analyzing and investigating the identified fraud incidents is critical. This effort, in collaboration with the business area, will identify the business processes and resources required to recover fraudulent or improper payments, to prevent future incidents of fraud, waste and improper payments, and to ensure that the analytics used to identify these incidents are continually being improved and refined to more accurately evaluate risk and fraud patterns.

IV.   Program Activities

- **Program Approach**

Project Management

The NC FACTS Project Management approach will leverage the lessons learned in the CJLEADS data integration project. To achieve success, the project will focus efforts on:

- o A phased design, development and deployment strategy to allow the project to engage in iterative design and implementation and achieve success and report benefits for a more manageable in scope of business analytics;
- o A vendor-hosted solution where the vendor establishes and supports the technical environment to allow for infrastructure installed and configured in an in an expedited time frame to quickly allow development to begin;
- o A data governance model to ensure that data sharing and security within NC FACTS meets all legal, statutory, and regulatory requirements;
- o A collaborative process to work with partner agencies to accurately identify and report new and incremental benefits associated with automated fraud, waste and improper payment detection;

- o A recommendation for programs to support fraud detection and prevention including ethics training and program integrity controls to educate and encourage employees to report suspect behavior in their business areas.

Analysis

Fraud, waste and improper payment detection is a challenging endeavor. Doing so at the statewide enterprise level has yet to be successfully achieved. In order to realize enterprise level fraud, waste and improper payment detection, the ability to integrate, store, mine, and analyze broad centralized data is vital. Data analysis will include:

- o Systematic verification that individuals or business entities are who they say they are;
- o Validation that the individual or business entity is complying with rules and regulations;
- o Identification of the linkages between entities within a state program area or across program areas;

These key verification, validation and identification processes require access to historical, detail-level data to enable detailed data mining and analytics.

For more detailed information about the Project Management and Analysis Approach please see Appendix_C.

- **Accomplishments**

Governance

The NC FACTS team has worked closely with the State's legal counsel and the SAS team to develop a governance model to secure and protect data included in the enterprise fraud, waste and improper payment detection environment. The governance model will allow agencies providing data to the NC FACTS enterprise application to define requirements associated with data access and usage. The governance model is based on the following;

- o All information provided by agencies will be used in the statistical and analytic processing. Data will be matched and clustered across data sources, aggregated, summarized, and analyzed for patterns and anomalies, and used for relationship and association analysis. These analytics will provide fraud, waste or improper payment alerts and risk scores associated with the agency business as well as an overall assessment of the impact to the State.
- o Agencies will define what information will be provided in fraud, waste, and improper payment alerts.
- o Agencies will define what detailed information will be available to select individuals researching fraud, waste and improper payments for various levels of role-based security.

o Agencies will have the ability to provide staff with access to specific alerts, models, and filters using with multiple levels of role-based security.

A Data Access and Usage Agreement (DAUA) template was developed to define the data sharing agreements between the agencies and the NC FACTS program. The DAUA will be modified to meet each agency's specific data sharing needs and concerns.

While the governance model has been established, agencies have expressed concerns about the need to protect the confidentiality of their data. This has led to multiple agencies declining to share Sate data in their possession with this initiative.

The ability to have broad access to data for statistical analysis, anomaly and outlier detection and investigation is critical to the detection, investigation and recoupment of fraudulent, wasteful, or improper payments. Identifying key data fields are required to develop relationships and linkages among the disparate sources. As data is integrated, advanced analytics can identify suspect activity and highlight possible collusion and/or rings of criminal activity. Because key data is necessary to perform the breadth of analysis required, NC FACTS will take all necessary measures to ensure the appropriate technical architecture, security, and access parameters are implemented to protect the data in the controlled NC FACTS environment.

Without access to the State's data, the best developed application has minimal value. Legislation providing OSC greater access to key data sources is necessary to allow the OSC to fully implement NC FACTS to meet the General Assembly's mandate to develop an enterprise approach for fraud, waste and improper payment detection.

Data Sharing/Agency Activity

OSC continues to meet with State agencies and organizations to introduce the program and to determine interest in participating with OSC in developing analytical tools to support their service area. In past meetings, OSC learned about agencies' current efforts in identifying, recovering and preventing fraud, waste and improper payments. The following meetings were conducted since the January 1, 2012 report:

The Department of Secretary of State

The Department of the Secretary of State (SOS) is responsible for the oversight and stewardship of information on business entities operating in the State of North Carolina. The SOS manages corporate registration with the State, Uniform Commercial Code, Charitable Solicitation licensing, and Notary Public commissions.

The SOS investigates potential fraudulent incorporation or reincorporation incidents reported to the department. Information such as addresses, phone numbers, office locations and business owner information may provide keys to identifying suspect

information provided to the SOS. Access to this public information will also be valuable to validate information from other State business areas.

The Secretary of State Elaine Marshall agreed to share the SOS public information with NC FACTS and executed a Data Access and Usage Agreement in early March, 2012. The team worked with the SOS to establish data transfer accounts, and the NC FACTS program is now receiving and analyzing the data content from the SOS.

The State Health Plan of North Carolina in The Department of the State Treasurer

The State Health Plan of North Carolina (SHPNC) provides health care coverage for teachers, state employees, retirees, current and former lawmakers, state university and community college staff personnel, state hospital staff, and their dependents. In managing the health care products and services for more than 663,000 people, there is potential for fraud and overpayment.

The SHPNC works to identify fraud in areas such as provider billing for improper or unnecessary procedures, falsifying diagnoses, and billing for services not performed. Consumer fraud may include filing claims for services or medications not received or falsely claiming dependent eligibility. Better access to information and tools may aid in identifying these types of improper payments.

State Treasurer Janet Cowell and The Department of the State Treasurer and the SHPNC are actively working with NC FACTS to initiate pilot program activities. SHPNC has provided information about the data available for analysis in the NC FACTS system. In addition, SHPNC is working with OSC, Blue Cross and Blue Shield and legal counsel to review the DAUA as well as required Business Associates Agreements to address HIPAA related requirements. When these agreements are finalized and executed, NC FACTS will begin receiving and analyzing data feeds from SHPNC.

The Department of State Treasurer
The Department of the State Treasurer (DST) administers the Teachers and State Employees and Local Governments pension plans and is responsible for providing a safe, secure retirement for North Carolina's 850,000 public employees. The integrity, knowledge and judgment of the Department of the State Treasurer are critical factors in the support and protection of the state retirement system.

The NC FACTS team met with DST personnel to discuss possible areas where the SAS Fraud Framework tools, integrated data and advanced analytics may bring benefit to the management of the retirement system. The DST plans to assign personnel resources to work with the NC FACTS program to develop analytics to support their needs.

The Office of the State Controller

The Office of the State Controller manages the North Carolina Accounting System (NCAS) and the BEACON HR/Payroll System. Both systems contain valuable information for the NC FACTS program.

NCAS manages a statewide vendor list which identifies the vendors that can be paid from the accounting system. This vendor file is currently used to perform debt set-off with the Department of Revenue and will be a valuable data source for NC FACTS to assist in linking vendors throughout state business areas.

The BEACON HR/Payroll system has employee payroll and time information. As NC FACTS works with the State Health Plan on member eligibility, this data will be valuable in confirming member eligibility and status.

NC FACTS is working with NCAS and BEACON to identify data to be integrated into the NC FACTS program. OSC will execute DAUA documents to define the data sharing and security for the NCAS and BEACON data sources. As soon as these agreements are complete, the transfer of data to NC FACTS will occur.

The Department of Health and Human Services

The Department of Health and Human Services (DHHS) manages the provision of a wide range of services to one out of every six North Carolinians. With a combined annual budget of $18 billion comprised of federal and state funds to support Medicaid, mental health and disabilities as well as social services, the potential for fraudulent, erroneous and wasteful payments is high. Recognizing the potential for fraudulent activity, DHHS has instituted many initiatives and programs to undertake and support investigations.

OSC is continuing discussions with DHHS personnel related to data sharing and collaborative efforts to support on-going DHHS fraud analysis and detection initiatives as well as identifying opportunities to combine efforts where redundant activities may be occurring.

While the intent of NC FACTS is not to duplicate existing efforts, the program recognizes that many of the current DHHS efforts evaluate data only that is readily available to their operations. As envisioned, NC FACTS will have broad access to data that may provide supplemental capabilities to validate or verify results, provide risk scoring analysis to help investigators target their efforts on those individuals and entities who display the greatest risk and/or return, and provide relationships and linkages to data from other business areas throughout the state to indicate related suspect activity.

DHHS data, as well as the results from on-going DHHS fraud investigation, will be critical to examining fraud across the enterprise. Combined knowledge about businesses and individuals will help to validate the information to other agencies across the enterprise.

OSC will continue to work with DHHS to determine how NC FACTS can use DHHS data in enterprise fraud detection and will identify areas of focus within DHHS that are not being addressed by current fraud efforts.

The Department of Transportation

The Department of Transportation (DOT) Office of the Inspector General (OIG) is responsible for improving DOT's effectiveness and governance and promotes its commitment to integrity and compliance with laws and regulations. The OIG's External Audit Branch oversees DOT's work with external agencies including audits of contracts and payments, ensures Disadvantaged Business Enterprise (DBE) compliance with federal and state regulations, and monitors financial transactions to ensure financial and legal integrity.

OSC met with DOT's OIG to assess their potential needs related to enterprise fraud analysis. While the OIG is currently engaged in oversight of DBEs and monitors vendor bids and payments for potential collusion, price fixings or other non-compliance issues, OIG has limited personnel to address these issues and their systems and tools to aid in the detection of suspect behavior are outdated.

DOT's OIG expressed a desire to work with NC FACTS to identify what data could be provided to the enterprise effort as well as what data would be available to assist DOT in their analysis. The OIG is also interested in the development of new tools to make their analysis more effective and efficient.

OSC will continue to work with the DOT OIG to pursue opportunities for analytics and reporting.

The Office of State Budget and Management

The Office of State Budget and Management (OSBM) manages the NC OpenBook website which provides public access to State contracts, grants, and assistance programs. NC OpenBook contains information about vendors, awarded contract bids, purchase orders, payments, grants, grant recipients and grant disbursements.

OSC will continue to work with OSBM to determine what data is available for inclusion in the NC FACTS environment.

The Department of Administration

The Department of Administration (DOA) oversees purchasing and contracts for the State. DOA manages the Interactive Purchasing System, North Carolina E-Procurement system and manages the contract for the State's P-card administration. These systems contain information about vendors, contracts, and purchase orders. While Division of Purchase and Contract (P&C) indicated that the NCAS system contains any important information needed for NC FACTS and therefore it was not necessary for P&C to

provide data to NC FACTS. Nevertheless, OSC will continue to work with DOA to determine if additional data available in their systems would be beneficial to the meet the General Assembly's mandate for an enterprise fraud, waste and improper payments detection system.

The Office of the State Auditor

The NC FACTS team held a series of meetings with members of the Office of the State Auditor. Each meeting focused on a specific business area(s) and the Auditor's office staff provided insight into possible areas of fraud, waste or improper payments based on their experience and knowledge. The Auditor's office staff made suggestions and highlighted potential challenges in acquiring the data necessary to finding fraud. This information has helped the NC FACTS team identify key data sources and determine areas of business focus. Business areas discussed during these meetings included:
- Accounting
- Revenue
- Healthcare
- Grants
- Education

State of Michigan

In addition to the meetings with various state agencies, the NC FACTS team contacted Carol Steele Sherman, Director of Data Center Operations for the State of Michigan, to discuss the Michigan Enterprise Data Warehouse Initiative. While Michigan's data warehouse initiative began in 1997, it has evolved into a major initiative in just the last few years.

Michigan's data warehouse is focused on Division of Community Health data. Ms. Steele shared that Michigan had encountered many of the same data sharing issues and challenges that NC FACTS is experiencing. She indicated that sometimes it takes an event, such as a budget constraint, a critical business need, or a federal requirement to provide a defined reporting capability, to prompt a willingness to share data.

Michigan shared their lessons learned on governance, interagency agreements and user access and management. One of Michigan's effective efforts at promoting data sharing was to establish a user group that meets regularly to educate users, discuss ways data is being used by other agencies, and to share ideas for expansion of the warehouse capabilities.

As the NC FACTS program matures, similar user groups will provide vital insight into the management, support and enhancement of the State's fraud, waste and improper payments data sharing and analytics initiative.

For a summary of other agency meetings held to date, please see Appendix_D.

Pilot Program

OSC continues to work with the State Health Plan as the focus area for the pilot NC FACTS analysis. NC FACTS and SHPNC are reviewing the required data sharing agreements, identifying specific data sources, addressing governance issues associated with data sharing, and establishing project timelines.

In addition to addressing State Health Plan fraud detection in the areas of member eligibility and claims analysis, the initial pilot will begin to build enterprise functionality that will be used for future business areas as they are added into the enterprise program. Examples of these enterprise functions might include:
- o Validating businesses with Secretary of State's corporate filings databases;
- o Verifying providers, recipients, members against Social Security Death Index;
- o Validation of payments against NCAS vendor files;
- o Development of a "do not do business" or "bad actors" file.

The enterprise functions will begin to build the linkages and interconnectivities that will support enterprise level analysis and reporting. As other critical data sources are added, the enterprise functions will be expanded.

Technical Environment

The NC FACTS team has worked closely with the vendor team to develop the technical architecture for the development environment. The North Carolina Technical Architecture System Design (TASD) was provided to the Office of Information Technology Services for review.

In order to develop accurate and effective statistical and analytical models and to ensure the ability to correctly and confidently match and cluster information from a variety of data sources, actual production data is needed in the development environment. As a result, the NC FACTS development environment is architected to have the same level of security and control as the eventual production environment.

NCID is the State's user authentication and identity management system. The NC FACTS team has worked with the SAS team to develop the requirements for NC FACTS integration with NCID. A result, any state user authorized for access to NC FACTS will be able to use their existing NCID and password for access to NC FACTS.

V. Challenges

Data Sharing

The data needed for effective enterprise analysis will include highly sensitive and secured information. The ability to protect Personal Identifying Information (PII), adhere to security and compliance requirements for the Health Information Portability and Accountability Act (HIPAA), and meet the constraints associated with other state and federal laws and regulations associated with tax information and employment data, will be critical to sharing information across the enterprise. NC FACTS will work with agencies to develop the required policies, procedures, contractual agreements, and memorandums of understanding or agreement necessary to define the parameters associated with data sharing of this key information within the State's fraud initiative.

Stringent application security, including physical security, user authentication, role-based security, data encryption, among others will be key components in the implementation of an enterprise fraud detection system. The ultimate success of this initiative will be dependent on state agencies that partner and strive to find and implement appropriate policies and controls to enable data sharing.

Some of the agencies who serve as data stewards of key data sources have determined that statutory or regulatory provisions prevent the ability to provide or share state data in their possession with this statewide initiative.

Department of Revenue
The Department of Revenue (DOR) houses key information about business and individual income, revenue, sales and tax information. This information is critical to analyzing a variety of areas including validating business and individual identities, reviewing provider claims and payments, analyzing recipient eligibility, and recognizing inconsistency in operations across the State's business areas. DOR data is critical to the enterprise effort, regardless of the participation of DOR in the new automated fraud initiative. The Department of Revenue, in response to a data sharing inquiry, indicated that state statutes and regulations, specifically G.S. § 105-259, limits the disclosure of tax related information. Tax information, defined in that statute, includes information contained on a tax return or obtained through an audit, information on whether or not an individual has filed a tax return or tax report, and a list of names, addresses, social security numbers, or similar information concerning taxpayers. Further DOR indicated that federal regulations including Section 6103 of the Internal Revenue Code requires that federal returns and return information must be kept confidential except as specifically defined by statute. DOR noted many of the State's data files co-mingle federal and state data which further complicates the ability to share information with the NC FACTS initiative. Section 7213 of the Internal Revenue Code provides that the unauthorized disclosure of tax information is a felony and is punishable by a fine of up to $5,000 and imprisonment of up to five years. Unauthorized inspection of tax information is a felony and is punishable by a fine of up to $1,000 and imprisonment of up to one year.

The Department of Revenue believes that legislation is required to allow the use of State tax information in the fraud, waste and improper payment detection initiative.

Division of Employment Security in the Department of Commerce

Division of Employment Security (DES) houses critical employer/employee filing information including employment tax data and unemployment claims data. Similar to revenue data, DES's data would enable validation of consistent business information, provide key linkages across State agencies, and provide for the analysis of employment and unemployment compensation data to detect fraud, waste or improper payments.

The Department of Commerce, following the reorganization of the Employment Security Commission to the Division of Employment Security under the Department of Commerce, has offered its assistance in meeting the objectives of the NC FACTS initiative. Department of Commerce and DES have provided 20 C.F.R. § 603 which defines the federal confidentiality provisions governing Unemployment Compensation (UC) information.

The OSC will work closely with Department of Commerce and DES, as well as with the U.S. Department of Labor, to ensure the appropriate governance is put in place to enable the disclosure of employment and UC information into the NC FACTS program for the purposes of fraud, waste and improper payment detection, investigation, recoupment and prevention.

Department of Health and Human Services

Department of Health and Human Services (DHHS) houses key information about medical service providers, recipients, and claims, as well as other social services information. DHHS expressed concern about the NC FACTS initiative placing additional burden on their current fraud detection program resources. While NC FACTS may not engage in detailed fraud analysis within Medicaid, the data and results from current Medicaid efforts are vital to enabling linkages and an enterprise view of businesses and individuals. The NC FACTS team recognizes that regulatory requirements related to HIPPA protected information must be addressed.

The NC FACTS program must have the support of these critical agencies to fully optimize the application potential. The General Assembly must address the statutory and regulatory inhibitors to data sharing that are currently blocking the sharing of the state's data within the state mandated initiative. OSC has and will continue to request that each agency cite the specific statutory and regulatory prohibitions to sharing data as well as their recommendations for addressing each issue to ensure that data can be shared with this mandated state program. The OSC will provide regular updates to General Assembly on the need for legislative action to enable data sharing in support of the NC FACTS program.

Program Resources for NC Fraud, Waste and Improper Payment Efforts

While the NC FACTS application will provide data integration and analytics to identify suspect behavior, pattern anomalies, and errors in processing as the basis for detecting, investigating, recouping, and preventing fraud, waste, and improper payments, a broader vision is needed to develop a State culture focused on fiscal responsibility and accountability at all levels of State government.

Education

North Carolina State Government serves the citizens of the state and is responsible for ensuring that tax payer dollars entrusted to the State are used in a fiscally appropriate manner. Focus on fraud, waste, and improper payment detection and prevention begins with instilling a culture within State government focused on accountability and transparency. To support this mindset in North Carolina, recommendations will be made to expand ethics training for all state employees and contractors.

Code of Conduct

A code of conduct is a set of principles, values, standards and rules of behavior that govern the business practices, procedures, and policies of an organization. The code of conduct sets the tone for employees and makes clear the expectation of a high standard of professional conduct. Some, but not all, of North Carolina's State agencies have adopted an employee code. Consideration should be given to establishing a North Carolina state employee code of conduct to ensure all state employees have a common, clearly defined set of guiding principles under to which to operate.

Fraud Reporting

While data integration and analytics will provide the ability to systematically detect fraud through statistical analysis, pattern evaluation, and anomaly detection, information from other sources will continue to provide valuable information on fraudulent activity. Review of existing hotlines and tip reporting will be conducted to ensure that state government employees and the public have ready access to tools to provide key information to state fraud program resources for review and investigation.

Consideration must also be given to the protection of state employees who provide information that they consider to be reasonable evidence of activity resulting in fraud, waste or improper payments. Consideration of laws providing "whistle-blower" protection may be needed to ensure the willingness of employees to report suspect behavior to the appropriate authorities.

Agency Resources

As the NC FACTS application identifies suspect data for review, agencies and the NC FACTS enterprise program will need resources to verify the accuracy of the findings, to determine the cause of the finding, and to identify the resulting program changes to prevent future incidents. The Office of Internal Audit and the Statewide Internal Control Program may require additional resources to support agencies and provide greater oversight for disbursement of state funds.

Incentives

As the automated fraud detection system is implemented and expanded throughout State business units, OSC anticipates an increase in the number of incidents and types of fraud identified. Identifying fraud is only one step in the process of improving government operations. The ability to investigate and recover funds that were improperly expended -- and more importantly the ability to prevent future incidents of fraud -- is critical to achieving measureable success in improving government operations.

Consideration should be given to providing a portion of the funds recovered from fraud, waste, and improper payment analytics and recovery efforts back to the employees, agencies and organizations. This measure would act as an incentive for the agency to provide the resources, equipment, and programs to analyze, investigate, and recover improperly expended funds. Programs must also have the resources necessary to adapt business policy and procedures, and improve information technology systems to identify and prevent improper payments in the first place.

Measurement of Benefits Realized

As previously mentioned, there are a number of on-going fraud detection initiatives throughout state government. The challenge will be the ability to clearly identify benefits associated with the implementation of the enterprise fraud detection initiative. To accurately measure and report on benefits realized, OSC will work closely with partner agencies and organizations to identify how enterprise data access supplements existing detection efforts and how new tools and capabilities enable additional fraud detection activities.

As fraud detection improves the ability of state agencies to adapt processes and controls to prevent fraud, quantitative reporting of prevention efforts may be challenging. Estimated benefits will consider historical fraud statistics as well as measured payments that were flagged and stopped prior to payment.

Maintenance of Analytical Models

Enterprise data and robust analytical tools will identify data patterns and anomalies in order to detect fraudulent and improper payments. With advanced analytics, it is likely that the number of identified data anomalies will increase significantly. Because State agencies and organizations have limited resources to review, investigate and recover improper payments, it is critical that the automated fraud detection system provide a feedback mechanism to refine the analytic models. As investigators determine which cases represent actual fraud versus cases that represent erroneous payments, the models can be adjusted to better identify high risk cases. Feedback will also allow the models to be refined so that suspect criteria are more specific and can reduce the number of "false positive" cases. The feedback can also provide information to stop suspect payments for a review process prior to expending funds.

As the State improves its ability to detect and prevent fraud, individuals who commit fraud will find alternative methods of gaining improper access to payments and services. All analytic models must be flexible and easy to modify to ensure the State's fraud detection ability maintains pace with the creativity of those trying to defraud the state.

VI. Budget

Session Law 2011, HB 200-145, authorized funding of $4.5 million in each year of the biennium budget for the development of an automated fraud, waste and improper payment data integration program. These funds will support OSC state project team staffing and expenses ($500,000) as well as contractual services for the design, development and implementation of data integration and business analytic models for fraud detection ($4 million). To ensure the public-private partnership of this initiative, the State's data integration vendor will contribute resources in the amount of $5 million in each of the next two years. The vendor contribution will provide hosting hardware and technical environment infrastructure, software, support and services for design, development and implementation of data integration and business analytic model development.

Projected Budget

As of July 1, 2011	FY 2012	FY 2013
Fraud Detection Funding		
State Funding	$1,500,000	$7,500,000
Vendor Financial Contribution	5,000,000	$5,000,000
Carryover from Prior Year		
	$6,500,000	$12,500,000
Fraud Detection Expenditures		
State Project Team Expenditures	$500,000	$500,000
Vendor Contracted Services Payment - December, 2011	1,000,000	
Vendor Contracted Services Payment - July, 2012		3,000,000
Vendor Contracted Services Payment - December, 2012		3,000,000
Vendor Contracted Services Payment - June, 2013		1,000,000
Vendor Hosting, Software and Contracted Services Contribution	5,000,000	5,000,000
NC FACTS Total	$ 6,500,000	$ 12,500,000

Actual Expenditures/Vendor Contributions

As of February 29, 2011	FY 2012 Actual	FY 2013
Fraud Detection Funding		
State Funding	$1,500,000	$7,500,000
Vendor Financial Contribution	5,000,000	5,000,000
Carryover from Prior Year		3,000,000
	$6,500,000	$15,500,000
Fraud Detection Expenditures		
State Expenditures		
State Project Team Expenditures	$42,709	
Vendor Payments	900,000	
Vendor Contribution		
Vendor Hosting, Software and Contracted Services Contribution	1,806,576	
NC FACTS Total	$ 2,749,285	$ -
Total Budget Funds and Vendor Contribution Remaining	$ 3,750,715	$ 15,500,000

VII. Next steps

- Continue work on the NC FACTS pilot program
    - Identify data and business requirements
    - Establish additional data sharing agreements
    - Begin development activities for data integration and business rules
        - SOS corporation , UCC, and notary files
        - NCAS vendor and payments data

- BEACON payroll and time data
  - o Develop analytic models and reports
  - o Test and refine application
  - o Establish business operations including user administration, training, and customer support
  - o Train and support business users
  - o Identify incidents of fraud, waste, improper payments
  - o Provide program recommendations for recovery and prevention of identified incidents
  - o Report benefits realized.

- Identify data sharing statutory and regulatory challenges and recommendations for addressing these challenges.

- Identify additional business areas of interest and plan for program expansion.

Appendix

Appendix A: Session Law 2011, HB 200-145

SECTION 6A.20.(c) As part of the State's continuing effort to develop a comprehensive enterprise-level data integration capability, the Office of the State Controller shall develop an enterprise process to detect fraud, waste, and improper payments across State agencies. State agencies shall fully support and participate in OSC's efforts to develop an automated fraud detection system

In support of the automated fraud detection effort, the OSC shall:
> (1) Develop a detailed long-range plan to implement an automated fraud detection system within State agencies.
> (2) Determine costs, to include vendor costs, for the effort for five years, beginning July 1, 2011.
> (3) Coordinate with State agencies to determine interest in participating in the project and to identify potential applications that can be included in an initial request for proposal.
> (4) Establish priorities for developing and implementing potential applications.
> (5) Evaluate savings resulting from each effort.
> (6) Coordinate efforts with the State's data integration vendor to begin the implementation process.
> (7) Establish a pilot to begin the implementation process and to identify and resolve issues associated with expansion of the initiative.
> (8) Coordinate with participating agencies to ensure that each has the resources and processes necessary to follow up on incidents of fraud identified by the vendor.
> (9) Provide recommendations to the Joint Legislative Commission on Governmental Operations, the Joint Legislative Oversight Committee on Information Technology, and the Fiscal Research Division of the General Assembly on potential future initiatives and the cost and savings associated with each.

SECTION 6A.20.(d) Beginning October 1, 2011, the OSC shall provide quarterly reports to the chairs of the Appropriations Committee of the House of Representatives and the Appropriations/Base Budget Committee of the Senate, the Joint Legislative Oversight Committee on Information Technology, and the Fiscal Research Division of the General Assembly. These reports shall include the following:
> (1) Incidents, types, and amounts of fraud identified, by agency.
> (2) The amount actually recovered as a result of fraud identification, by agency.
> (3) Agency procedural changes resulting from fraud identification and the time line for implementing each.
> (4) State costs for fraud detection for the previous quarter.
> (5) Payments to the vendor for the previous quarter.
> (6) Anticipated costs and vendor payments for each of the next two years from the date of the report.

SECTION 6A.20.(e) The Office of the State Controller is authorized to enter into an enterprise automated fraud detection contract for eight million dollars ($8,000,000) for a two-year contract period. Under the terms of the contract, payments are limited to the following payment schedule:
> (1) December 2011–$1,000,000.

(2) July 2012–$3,000,000.
(3) December 2012–$3,000,000.
(4) June 2013–$1,000,000.

Further, payments shall be contingent upon achieving the anticipated schedule of benefits realization.

To maximize cost reductions and savings, the Office of the State Controller shall enter into the agreement no later than September 1, 2011. To ensure this is a Public-Private Partnership, the Office of the State Controller shall ensure that the chosen vendor shall contribute resources valued at least five million dollars ($5,000,000) during each of fiscal year 2011-2012 and fiscal year 2012-2013 for the project's success.

SECTION 6A.20(f) The Office of State Controller shall ensure that the State receives an appropriate share of intellectual property ownership or residuals, or both, accruing as a result of subsequent contracts between the vendor and third parties that utilize the innovations developed as a result of this contract.

SECTION 6A.20.(g) Of the funds appropriated from the General Fund to the Office of the State Controller, the sum of one million five hundred thousand dollars ($1,500,000) for the 2011-2012 fiscal year and the sum of seven million five hundred thousand dollars ($7,500,000) for the 2012-2013 fiscal year shall be used to support the enterprise process to detect fraud, waste, and improper payments across State agencies in each year of the biennium. Of these funds, five hundred thousand dollars ($500,000) each year shall be used by the Office of the State Controller to support the initiative. The remainder may be used to fund payments to the vendor.

*Session Law 2011-391, HB 22. (*Technical Corrections Bill)

SECTION 12.(c) Section 6A.20(c) of Session Law 2011-145 reads as rewritten:
"**SECTION 6A.20.(c)** As part of the State's continuing effort to develop a comprehensive enterprise-level data integration capability, the Office of the State Controller shall develop an enterprise process to detect fraud, waste, and improper payments across State agencies. State agencies shall fully support and participate in OSC's efforts to develop an automated fraud detection system and shall upon request provide in a timely and responsive manner accurate, complete, and timely data, business rules and policies, and support for project requirements. The agency head shall verify, in writing, the accuracy, completeness, and timeliness of the data. If any support or data is not provided as needed for the automated fraud detection effort, the OSC shall report that failure to the General Assembly for further review and action.
In support of the automated fraud detection effort, the OSC shall:
        (1) Develop a detailed long-range plan to implement an automated fraud detection system within State agencies.
        (2) Determine costs, to include vendor costs, for the effort for five years, beginning July 1, 2011.
        (3) Coordinate with State agencies to determine interest in participating in the project and to identify potential applications that can be included in an initial request for proposal.
        (4) Establish priorities for developing and implementing potential applications.
        (5) Evaluate savings resulting from each effort.

(6) Coordinate efforts with the State's data integration vendor to begin the implementation process.

(7) Establish a pilot to begin the implementation process and to identify and resolve issues associated with expansion of the initiative.

(8) Coordinate with participating agencies to ensure that each has the resources and processes necessary to follow up on incidents of fraud identified by the vendor.

(9) Provide recommendations to the Joint Legislative Commission on Governmental Operations, the Joint Legislative Oversight Committee on Information Technology, and the Fiscal Research Division of the General Assembly on potential future initiatives and the cost and savings associated with each."

Appendix B: Program Requirements

The ability to identify, resolve and prevent incidents of fraud, waste and improper payments is imperative to the State's fiscal management of public funds. Studies have found that individuals willing to commit fraud or abuse in one business area will often times be involved or associated with improper activity in another business area. The management of potential areas of abuse requires access to enterprise data, the ability to evaluate and analyze that data using filters, predictive models, and statistics that provides improved fraud detection, accurate information for investigation and recovery, and the prevention of future improper payments.

Session Law 2011, HB 200-145 also directs State agencies to fully support and participate in the development of an automated fraud detection system by providing data and business rules to analyze data, develop models which determine data patterns, and identify anomalies which may indicate unusual and perhaps fraudulent behavior.

In developing the program, OSC shall:
- Develop a long-range plan to implement an automated fraud detection system;
- Determine costs, including vendor costs, for five years beginning July 1, 2011;
- Coordinate with State agencies to determine interest in participating in the project and identify potential applications that can be included in an initial request for proposal;
- Establish priorities for developing and implementing potential applications
- Evaluate savings from each effort;
- Coordinate efforts with the State's data integration vendor to begin the implementation process;
- Establish a pilot to begin the implementation process and identify and resolve issues associated with expansion of the initiative;
- Coordinate with participating agencies to ensure that each has the resources and processes necessary to follow up on incidents of fraud identified by the vendor; and
- Provide recommendations to the Joint Legislative Commission on Governmental Operations, the Joint Legislative Oversight Committee for Information Technology, and the Fiscal Research Division of the General Assembly on potential future initiatives and the cost and savings of each.

The legislation also requires quarterly reports to the chairs of the Appropriations Committee, the Joint Legislative Oversight Committee for Information Technology and the Fiscal Research Division of the General Assembly. The quarterly reports are to focus on:
- Incidents, types and amounts of fraud identified by agency;
- Amount actually recovered as a result of fraud detection by agency;
- Agency procedural changes resulting from fraud identification and the timeline for implementing each;
- State costs for fraud detection for the previous quarter;
- Payments to vendor for the previous quarter; and

- Anticipated costs and vendor payments for the previous quarter for each of the next two years from the date of the report.

Appendix C: Program Approach

Project Management

Manage Phased Design, Development and Deployment Activities

Traditional enterprise IT initiatives include a broad scope of work effort that addresses all business requirements and strives to complete all areas of data and business functionality in a single implementation. This "Big Bang" approach results in complex design and development activities that are at risk of delays, scope change and cost overruns.

NC FACTS' project approach, like the CJLEADS data integration initiative, will follow a unique iterative design methodology to quickly achieve success and to maintain momentum with phased development, implementation and deployment. OSC will identify one or more pilot areas of manageable scope that will allow the project to achieve success and report benefits realized. Using the pilot to build knowledge of the SAS fraud framework and prove the viability of fraud detection applications, OSC will be able to develop critical experience which can be leveraged to support additional business areas.

Establish Hosted Technical Environment

The State data integration vendor, in a public-private partnership with the State, will contribute resources valued at $5 million to the project in each of the next two fiscal years. A portion of these resources will provide the implementation, hosting and management of a robust technical infrastructure to support the NC FACTS application(s). The vendor-hosted approach enables the technical environment to be established and ready for development in an expedited timeframe.

In accordance with the Strategic Plan for Data Integration, common technical platforms, toolsets and database technology will enhance the ability to share and utilize data across the enterprise for multiple business needs. Shared infrastructure and technology may also allow the State to achieve economies of scale and efficiencies, reducing the cost across all data integration initiatives.

Establish Data Governance

The ability to effectively identify enterprise fraud, waste and improper payments requires access to a wide variety of data sources. Vital records, for example, help identify when benefits are erroneously paid out to deceased recipients. Access to offender information that indicates a service provider has a history of fraudulent behavior may improve the ability to accurately predict risk when reviewing provider credentials and claims. Tax information may assist in determining accuracy of dependent eligibility for government services. The information needed to support enterprise fraud detection will include highly sensitive and protected information. The NC FACTS program will follow the

legal, statutory, and regulatory requirements associated with sharing, storing and analyzing various sources of data. Data governance includes the data sharing agreements, security policy and procedures, application requirements, such as business rules, role-based security and auditing capabilities, necessary to maintain the appropriate control and integrity of the data.

Determine Benefits Realized

The key to demonstrating the success of an automated fraud detection system is the ability to report on benefits realized from the implementation of the program. The State of North Carolina has a number of fraud detection initiatives operating throughout its agencies and organizations. Benefits from an automated enterprise approach to fraud detection may include: enhancing or supplementing existing fraud detection activities to more accurately identifying cases representing higher risk or higher priority for recovery; expanding data available to assist in the analysis of fraud and improper payments; refining assessments of risk to optimize investigation, recovery, and prosecution efforts; developing new fraud detection capabilities; and improving business processes to prevent future incidents of fraud and waste.

OSC will work closely with partner agencies to accurately identify and report new and incremental benefits associated with the implementation of the automated, enterprise fraud detection program.

Support Enterprise-wide Business Programs to Improve Government Operations

While data integration and business analytic tools may be able to improve the ability to identify, investigate, and recover fraudulent or improper payments, business programs focused on preventing fraud are essential to reducing waste in state government. Programs including ethics training and program integrity controls will help educate employees on ways to identify, document and report suspect behavior in their business areas. The State must consider ways to motivate employees to report suspect behavior and ensure that there is protection for the employee reporting improper activity. OSC will analyze programs in other states and the federal government to understand effective options for North Carolina.

Analysis

Fraud, waste and improper payment detection is a challenging endeavor. The ways in which individuals and businesses engage in fraudulent activity is varied and continuously changing. Activity that may not raise a flag in one area of the State's business may be highly suspect when linked to the same individual's activity in another area of the State's business. While not all improper payment activity results from criminal intent, the analytics used to detect suspect activity can also help identify areas where controls are needed to prevent wasteful or improper payments as well.

In order to achieve enterprise level fraud, waste and improper payment detection, the ability to integrate, store, mine, and analyze broad centralized data is vital. NC FACTS' multi-dimensional approach will analyze data to detect patterns, anomalies, and linkages within business silos as well as across agencies boundaries to identify questionable or suspect activity. This analysis will include:

Identification

The NC FACTS system will strive to systematically verify that the individual or business entity is who they say they are. For example:
- o Is the SSN or tax payer id provided by the entity a valid federal number? Is the number associated with a deceased individual?
- o Is the business registered with the Secretary of State's office?
- o Are phone numbers and addresses valid?
- o Does the entity demonstrate the same attributes across all State areas of business, (i.e. do the entity's employment records match vendor information, revenue data or perhaps licensing board information)?
- o Has the entity's history or pattern of behavior changed abnormally over-time indicating possible suspect activity?

Validation

The NC FACTS system will strive to validate if the individual or business entity is following the rules. For example:
- o Is the individual or business listed on any of the "do not do business with" or "dis-barred" lists available at the state or federal level?
- o Does the individual or business owner have previous criminal behavior that might indicate risk for a particular service or business area?

Association

The NC FACTS systems will strive to identify linkages between entities within a state program area or across program areas. For example:
- o Is the owner(s) of this business associated with other businesses?
- o Do business entities share addresses, P.O. boxes, phone or fax numbers?
- o Do multiple businesses list the same employees?
- o Are there other connections that may indicate collusion or fraud rings?

Identification, validation and association processes will require access to historical, detail-level data to enable detailed data mining and analytics.

Appendix D: Agency Meetings

North Carolina Office of the State Auditor

The Office of the State Auditor is responsible for providing independent, un-biased and professional assessments of whether public resources are being properly accounted for and for providing insight into how the government can operate more efficiently. OSC met with the State Auditor's office to gain an understanding of the challenges the State faces in controlling improper payments that result from fraud, erroneous payments, or lack of internal control. Meetings with the State Auditor's office provided further insight into industry statistics and the State's current efforts to control government waste. To ensure the success of this effort, the support and participation of the Office of the State Auditor will be significant to the NC FACTS program.

Office of State Budget and Management – Office of Internal Audit

The Office of Internal Audit ensures that State agencies which are required to establish programs of internal audit conduct internal audits that comply with the Standards for the Professional Practice of Internal Auditing. As this office works closely with a variety of State agencies, the Internal Audit Director is able to provide a unique perspective into the challenges and opportunities in helping agencies identify potential fraudulent or wasteful activity. An assessment of internal audit resources revealed that agency needs for internal audit support resources exceed available personnel. Currently, many state agencies have limited or no internal audit resources available. Likewise, interaction and support of the Office of Internal Audit will be vital to the success of the NC FACTS program.

Department of Health and Human Services

The Department of Health and Human Services (DHHS) manages a wide range of services which support the health, safety and well-being of all North Carolinians. With a budget of $14 billion comprised of federal and state funds to support Medicaid, mental health and disabilities as well as social services, the potential for fraudulent, erroneous and wasteful payments is high. Recognizing the potential for fraudulent activity, DHHS has instituted many initiatives, programs and sections to support investigations.

OSC met with the Secretary and executive management team of DHHS. DHHS provided information on their current programs and efforts that are focused on identifying, investigating and recouping fraud and overpayments. While DHHS has program integrity and other resources deployed to identify fraud, there are opportunities to leverage additional data sources and identify risk, evaluate programs, and provide tools to enhance and supplement DHHS' current efforts.

The Department of Justice – Medicaid Fraud Control Unit

The Department of Justice (DOJ) Medicaid Fraud Control Unit (MFCU) is a federally funded organization focused on the investigation and prosecution of Medicaid fraud incidents. Currently, the MFCU conducts most of its investigations as a result of case referrals from DHHS, tips from hotlines, or incidents that result from other criminal investigations. A part of these criminal investigations, sworn law enforcement officers, investigators, and attorneys, gather information from a variety of data sources to develop complete case information. This task can be time consuming, involves logging onto multiple systems and issuing individual requests for data, requires manual collection and evaluation of data.

The DOJ MCFU indicated that electronic access to data, access to additional sources of data, and the ability to combine and analyze information through automated tools would facilitate their investigative efforts.

The Department of Insurance

The Department of Insurance (DOI) provides oversight and regulation of the insurance industry, insurance agents, and claims adjusters in North Carolina, along with various other programs. DOI fraud investigators examine potential incidents of fraud reported by insurance companies, agents, and customer as well as tips from hotlines and website reports.

DOI investigators use a variety of data sources to identify patterns and indications of suspect behaviors. Some data is accessed through online systems while other data must be requested for each incident. DOI indicated that electronic access to more information as well as the ability to combine, analyze, and rank information through automated tools would facilitate their investigative efforts.

NC FACTS will evaluate the ability to use DOI information in the enterprise fraud detection application including DOI's State-Based System which tracks information about suspect cases.

The Department of the Secretary of State

The Department of the Secretary of State (SOS) is responsible for the oversight and stewardship of information on business entities operating in the State of North Carolina. The SOS manages corporate registration with the State, Uniform Commercial Code, Charitable Solicitation licensing, and Notary Public commissions.

The SOS investigates potential fraudulent incorporation or reincorporation incidents as reported to the department. Information such as addresses, phone numbers, office locations and business owner information may provide keys to identifying suspect information with the SOS. Access to this public information will also be valuable to validate information from other State business areas. The SOS has offered to share its

public information with the NC FACTS application, and the technical team is working to establish the technical process to integrate the data.

The Office of the State Controller

The Office of the State Controller manages the North Carolina Accounting System (NCAS) and the BEACON HR/Payroll System. Both systems contain valuable information for the NC FACTS program.

NCAS manages a statewide vendor list which identifies the vendors that can be paid from the accounting system. This vendor file is currently used to perform debt set-off with the Department of Revenue and will be a valuable data source for NC FACTS to assist in linking vendors throughout state business areas.

The BEACON HR/Payroll system has employee payroll and time information. As NC FACTS works with the State Health Plan on member eligibility, this data will be valuable in confirming member eligibility and status.

NC FACTS is working with NCAS and BEACON to identify data to be integrated into the NC FACTS program.

Division of Employment Security in the Department of Commerce

The NC FACTS team met with the Employment Security Commission (ESC) in September 2011. Afterward, the ESC transitioned to the Division of Employment Security (DES) in the Department of Commerce. OSC provided the DES with information about security protocols and NC FACTS program objectives and asked to meet with DES again.

On December 2, 2011, the State Controller received a letter from Assistant Secretary Lynn Holmes indicating that DES has well established practices and systems in place for the detection, prevention, and recovery of improper payments as well as fraud detection efforts. As a result of these on-going efforts and with concerns that NC FACTS would over-burden existing resources, DES indicated that it is unable to participate in the enterprise fraud initiative at this time.

The State Health Plan of North Carolina in the Department of the State Treasurer

The State Health Plan (SHP) of North Carolina provides health care coverage for teachers, state employees, retirees, current and former lawmakers, state university and community college staff personnel, state hospital staff, and their dependents. In managing the health care products and services for more than 663,000 people, there is potential for fraud and overpayments.

The Interim Executive Administrator and executive management team of the State Health Plan provided information about their current efforts and challenges in identifying fraud and overpayments. The SHP works to identify fraud in areas such as provider billing for improper or unnecessary procedures, falsifying diagnoses, and billing for services not performed. Consumer fraud may include filing claims for services or medications not received or falsely claiming dependent eligibility. Better access to information and tools may aid in identifying these types of improper payments. The SHP has expressed interest in participating in the NC FACTS pilot initiative.

Department of Revenue

OSC met with the North Carolina Department of Revenue to discuss potential participation in this effort and any regulatory or legal barriers that might impair the State's effort at addressing fraud and improper payments associated with tax receipts and payments.

Other Meetings

- OSC also met with the State's data integration vendor, SAS, to learn about the SAS Fraud Framework toolset and to gain a better understanding of their successful experiences in the implementation of the SAS Fraud Framework in other government environments. The SAS tools provide the ability to pull valuable information from a variety of sources and integrate that information in a centralized data repository, making it available to a variety of business areas for fraud detection. The tools allow the State to "match" data from multiple sources to identify a more complete picture of businesses and individuals and their interactions with State agencies and services. Statistics indicate that individuals and businesses involved in fraudulent activities in one area of State business, such as health services, also are likely to be involved in fraud in other areas such as welfare services. The ability to evaluate data across business areas is critical to identifying individuals engaging in multiple areas of fraud as well as more sophisticated professional fraud rings.

  SAS has been involved with fraud detection in several states, focusing on improper child care services claims in Los Angeles county California, worker's compensation fraud in the state of Washington, revenue collections in Wisconsin, and unemployment insurance in Louisiana.

- OSC met by conference call with Commissioner Paul Rainwater, the State of Louisiana's Chief Financial Officer, who was charged by Governor Jindal with the responsibility of implementing a similar enterprise-wide effort. Louisiana used the SAS Fraud Framework to evaluate fraud and improper payments in the area of unemployment benefits. Commissioner Rainwater shared Louisiana's initial success with using the SAS tools in identifying $12 million in unemployment insurance fraud. Commissioner Rainwater stated that Louisiana has found the SAS tools "easy to use" and that Louisiana's effort to identify unemployment insurance fraud "pays for itself." Based on its initial success, Louisiana is expanding its use of SAS tools to

address fraud in the Department of Child and Family Services and the Department of Hospitals. According to Commissioner Rainwater, the tools provide the ability to identify the "bad actors" with the same characteristics across multiple areas of government services. In Louisiana, one example of this scenario is individuals with a history of medical and drug related fraud are establishing construction companies to elevate houses as protection from future flooding incidents. Knowledge of previous fraudulent activity will allow Louisiana to be better informed before incorporating new companies under potentially fraudulent owners.

Commissioner Rainwater also shared lessons learned from Louisiana's initial efforts with the implementation of the SAS Fraud Framework. In its first initiative, Louisiana's opted to implement the SAS tools in a State-hosted environment, using internal resources to support the system and build analytics models. Commissioner Rainwater, however, indicated that this approach was "not as efficient as it could be" and that Louisiana would be "moving aggressively toward privatization" or using vendor services to host and build applications to more efficiently implement future fraud initiatives.